



**MINUTES FROM MEETING OF BANKING SUBCOMMITTEE
OF THE CASH MANAGEMENT POLICY BOARD
August 1, 2016**

A Telephonic Meeting of the Banking Subcommittee of the Cash Management Policy Board was Held on Monday, August 1, 2016, at 10:00 AM in the Conference Room of the Office of the State Treasurer Located at 820 Silver Lake Blvd., Suite 100, Dover, Delaware.

Board Members in Attendance:

Mr. Warren Engle, Chair, Banking Subcommittee of the Cash Management Policy Board (Telephonically)
The Honorable Ken Simpler, State Treasurer
The Honorable Tom Cook, Co-Chair, Secretary, Department of Finance (Telephonically)
Ms. Lynda Messick (Telephonically)

Board Members Not in Attendance:

Mr. John Flynn, Chairman, Cash Management Policy Board

Others in Attendance:

Mr. Frank Broujos, Deputy Attorney General (Telephonically)
Mr. Steve McVay, Director of Investments and Cash Management, Office of the State Treasurer
Mr. Jim DiDonato, Head of Banking Services, Office of the State Treasurer
Ms. Susan Steward, Policy Advisor, Office of the State Treasurer
Ms. Erin Niehorster, Administrative Specialist, Office of the State Treasurer

CALLED TO ORDER

Mr. Engle called the meeting to order at 10:01 AM.

MINUTE APPROVAL

Mr. Engle introduced the meeting minutes from the May 3, 2016, meeting for approval by the Board. Ms. Messick moved to accept the minutes and the MOTION was seconded by Mr. Cook. MOTION ADOPTED UNANIMOUSLY.

COLLATERALIZATION MEMORANDUM

Mr. McVay reintroduced the risk associated with an intraday bank failure at the three principal State cash management banks; PNC, BNY Mellon, and Citizens. The current collateralization policy with all banks collateralizes funds based on the prior month average closing balance. OST reached out to other states in regards to daily collateralization policies via NAST (National Association of State Treasurers). Also, OST reached out to each of the three cash management banks to determine their ability to address our collateralization needs. Each bank responded with individual solutions though none can eliminate intraday risk entirely.

Mr. Simpler elaborated on the levels of collateralization for the Board. In 2012, OST unilaterally modified the collateralization policy in response to the reduction of FDIC coverage (from unlimited to \$250K). Current guideline language only requires collateralization of prior month average closing balances. These balances do not capture high watermarks and meaningful gaps exist.

Mr. McVay outlined the collateralization information provided by BNY Mellon. Over the last thirty-three months, the average intraday risk for monies held at BNYM was just under \$100 million. The highest level of monies at risk was \$481 million in October 2013 due to the deposits of property taxes received. BNY Mellon has offered another sweep vehicle that will operate differently and will allow the State to mitigate some intraday risk. The new investment vehicle is known as an automated investment sweep. At 4:00 PM every day the main operating account will be reviewed to see if there is a net excess or net deficit balance in the account. Funds will either be swept out or in to reach a closing target balance of \$5 million.

Mr. McVay stated money that is swept out at the end of the business day will not be deposited the next day as it is currently. The account may be drawn down to an intra-day deficit until the end of the day sweep, as long as the balances show adequate funds available in both accounts. Any outgoing wires will be released as normal. Mr. Engle asked if there is a fee for the daylight overdraft. Mr. McVay stated that he is not sure but will check. Mr. Engle then asked if there is an additional fee for this service. Mr. McVay stated that he is still waiting for BNY Mellon to qualify the amount of the fee.

Mr. Engle inquired about the administrative work referencing the current responsibilities on Mr. DiDonato. Mr. McVay stated that the administrative work should be minimal, but a review of the accounts will be required.

Ms. Messick asked if BNY Mellon sweeps are into proprietary funds. Mr. McVay stated that they are not. Mr. Engle asked if the funds where money is currently invested meets the current guidelines and Mr. McVay asserted that they do.

Mr. McVay discussed PNC which is the State's disbursements bank. On a daily basis, OST initiates a wire to fund PNC based on the State's current day liabilities. The risk is the daily incoming wire to pay the liabilities; this amount stays parked in PNC, uncollateralized, until the end of the day. Typically, the level of exposure in this account is twenty million dollars. However, on the first Thursday of the first full week of the month, the State is required to send out a Medicaid payment which is typically around \$150 million. That day the balance in the account increases substantially elevating the intraday exposure risk. Currently, PNC Bank is willing to collateralize fifty to one hundred million dollars flat at no additional charge. OST recommends that PNC Bank collateralizes up to one hundred million; this will virtually eliminate risk every day but the first Thursday of the first full week of the month.

Mr. Engle clarified that the intraday exposure can be as high as \$100 million and that PNC will collateralize at \$100 million fixed at no charge. Mr. McVay believes this level of collateralization is sufficient but warns there could be exceptions though they are not typical.

Mr. McVay outlined the Citizens relationship as well as their solution for collateralization. There is limited exposure at this bank relative to the other banks. The collateralization proposal from Citizens will collateralize daily using BNY Mellon as a "safe-keeping agent" based on the prior day closing balance. There is no charge for this service.

Mr. Simpler stated that, as a board member, he believes this is the correct path to take to mitigate risk cost-effectively. The Treasurer wants to make sure there are administrative resources available to ensure compliance with any new collateralization agreements though he is not worried it will be a large burden.

INVESTMENT GUIDELINES REVISION

Mr. Simpler stated that the language in the current Investment Guidelines is too technical and precise on amounts that should be collateralized without taking into account the intra-day balances. The language is still being drafted to reflect a more practical collateralization procedure. Mr. Simpler stated that new language will be put forth for review and revision by the Board.

OUTSIDE BANK ACCOUNTS

Mr. Simpler summarized the discussion from the Investment Subcommittee meeting last week in regard to Outside Bank Accounts. These accounts are outside of the typical liquidity and cash management framework. These accounts have been opened by State organizations at local bank branches for petty cash and non-petty cash functions. The State's Budget and Accounting Manual (BAM) has been updated to specify the allowable purposes for creating these accounts under the State's EIN. To streamline both reporting and BAM compliance of these accounts, OST is preparing procedures for organizations to follow which will be implemented in the fall.

Ms. Messick inquired about the proposed use of four primary banks, considering a lot of local banks where accounts may be held and if those banks would offer collateralization and reporting as the current relationship banks. Mr. Simpler stated that administratively spreading out accounts over many banks leads to administrative issues that would affect enforcement of policies.

Mr. Engle expressed concern with closing and moving accounts from local banks. Mr. Simpler stated OST would provide the breakdown and balances of the accounts as well as a list of the banks where the accounts are held.

NEW BUSINESS

Mr. Simpler addressed Ms. Messick's concern from a previous meeting in regards to vendor management and stated that OST is working to address this issue. Ms. Messick has materials she will forward to OST for review in regards to this matter.

OLD BUSINESS

Mr. DiDonato updated the Board both on the Direct Deposit and Merchant Services banking relationships. Currently, the State is still in contract negotiations with Wells Fargo for Direct Deposit services and Bank of America Merchant Services for credit card processing even though approval to begin negotiations was done at the May meetings.

Mr. Simpler segued into the complexity of banking negotiations and the speed at which negotiations are currently moving. The pace of negotiations has been painfully slow with the incumbent which highlights the issue Mr. Simpler perceives as being a lack of dedicated legal counsel to OST.

Based upon his discussions with Bank of America, Mr. DiDonato feels that the bank will allocate limited transition related resources before a contract is finalized. Mr. Simpler reminded the board that the EPX contract expires in May, and the conversion can take up to eighteen months.

Mr. Simpler stated that the State could not afford six months of contract negotiation. He believes that having the ability to leverage outside counsel to assist in completing contracts more expeditiously would improve the State's standing in all contract negotiations. It would be beneficial to have Mr. Broujos, Aaron Goldstein, and the Governor's office talk to OST about potentially using banking services revenue to engage outside counsel.

Mr. Engle thanked the Treasurer for bringing this up and states that it is a concern. Mr. Broujos will relay Mr. Simpler and the Board's concerns to Mr. Goldstein in order to make every effort to speed up the current pace of negotiations.

Mr. Engle inquired if it is possible to apply pressure to Bank of America to speed up their end of negotiations. Mr. DiDonato stated that Bank of America views these negotiations as important and is working as swiftly as it is able. He feels that the negotiation's slow pace is a result of the depth of the discussions between the technology groups of both the State and Bank of America.

Mr. Simpler elaborated on his desire to keep the Board apprised of the process as it is unfolding currently and stated that the timeline of negotiations should be included in the RFP timeline. Mr. Engle believes that the full Board should be aware of these roadblocks as well as ideas to amend the process to speed up negotiations.

Mr. Simpler states he will follow up with Mr. Cook and then speak with Mr. Broujos and Mr. Goldstein.

PUBLIC COMMENTS

No public present for comment.

ADJOURNMENT

Mr. Simpler made a MOTION and seconded by Ms. Messick to adjourn the meeting at 11:22 am
MOTION ADOPTED UNANIMOUSLY.

Respectfully submitted,

Warren Engle
Chair for the Banking Subcommittee, Cash Management Policy Board

Thomas J. Cook
Co-Chair for the Banking Subcommittee, Cash Management Policy Board